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SO, HOW ARE *YOUR* COMPANY'S PC USERS GETTING ALONG?

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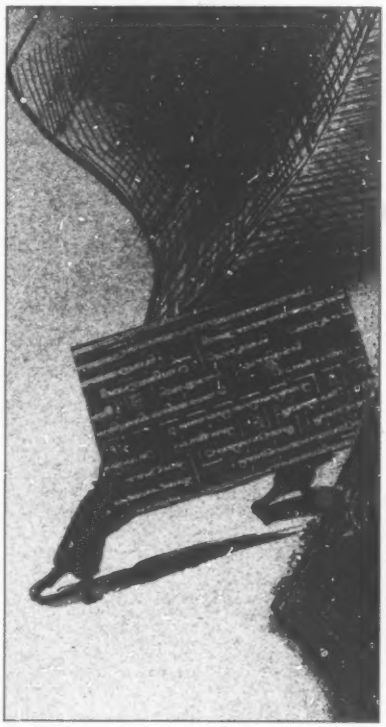
The well-publicized program of the Western Allies to stem the tide of high tech to the Soviet Union may have backfired, write David Hebditch and Nick Anning. As the "Soviet Sting Sours," both the smuggling and the smugglers are proliferating.



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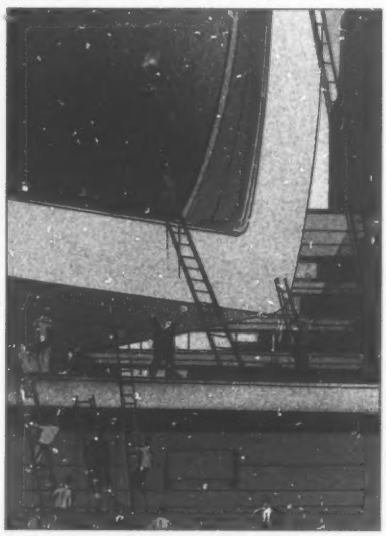

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EXODUS UP CLOSE

Operation Exodus is the U.S. Customs Service's attempt to stop the bad guys now before they stop us later. Exodus is officially defined as "an integrated enforcement program to protect our national security by intercepting illegal high-technology exports including arms to Eastern Bloc countries."

It's unoffically defined as a royal pain by a government relations executive of one of the U.S.'s top 10 computer companies.

"We've run into it a couple of times," he says. "It hasn't pinched us to the point where it's affected business. But it delays things more than usual."

That's the idea. Delaying the export process is one of the milder outcomes of a confrontation with Exodus. The operation can be very painful, resulting in detention or seizure. In those cases, post-op recovery can take a very long time.

What doesn't make it past the border is critical technology that violates the Export Administration Act and the Arms Export Control Act. Critical technologies are like opinions—everybody has his own definition. So far, the opinion of Exodus is the last word on the subject.

"In 1982 we had no control here or in any other countries," says Roger Urbanski, director of the strategic investigation division at Customs. "Then we set the example. We put our own house in order by penalizing U.S. industry first."

This was no minor two-minute fire drill. The ensuing sound and fury signified a great deal. Customs discarded its iron fist for a leather glove. Industry was able to prove its case that it knew better than Customs which of its products should not be entitled to take that long trip to the not-so-exotic East.

"I'm convinced that the U.S. export community is paying attention to the letter of the law," contends Urbanski. He didn't say anything about the spirit of the law, but he surely was thinking that the capitalists out there in entrepreneurland were sorely tempted by the easy money. "There's a lot less going out through inadvertent means. We matured and so did industry. Now a majority of our cases involve industry through a tip, a contact, or just turning in another company."

Should a company get caught in the tangled web Customs weaves, two things can happen. Both of them are bad. The goods can be detained, which means Customs just wants to take a look and see what the story is. If the exporter can establish its right to be doing what it's doing, then it may pass Go. It may not collect $200, because it's going to be late, but that's not Customs' problem.

If there's no license or the goods are headed for a controlled country, then they are liable to seizure and subsequent forfeiture, as in the heavily publicized VAX incident in late 1983 (see Fig. 1). The government can force the vendor and customer to forfeit goods worth up to $100,000 without court review. The alleged offender has the right of appeal, but that ain't cheap.

For a three-and-a-half-year-old, Exodus doesn't seem to be doing badly. Even its former detractors concede the program has come a long way.

A few years ago, the computer industry and the U.S. Customs Service were quite antagonistic. Now, says Urbanski, the former antagonists have become friends. Maybe not fast ones, but not slow ones, either. "We're not adversaries anymore," he says. "That's definitely a change for the better. Besides, they know better than we do what products the Soviets are after."

—W.S.

FIG. 1

OPERATION EXODUS BOX SCORE—SYSTEMS

(from Oct. 1981 through March 31, 1985)

NO. OF SHIPMENTS	DETAINED	SEIZED	VALUE (IN $ MIL.)
FY82	2,581	795	54.8
FY83	3,620	1,444	86.3
FY84	2,391	1,459	85.6
FY85	NA	343	28.1
Total	8,492	4,039	$255.2

FIG. 2

OPERATION EXODUS BOX SCORE—PEOPLE

(from Oct. 1981 through Sept. 30, 1984)

Cases accepted for prosecution	351
Indictments	575
Arrests	534
Convictions	347

SOURCE: U.S. CUSTOMS SERVICE

siderable expenditure of intellectual resources and money, often at direct cost to the taxpayer, before the West can reestablish its lead."

The Ludlam case is outstanding both because it shows how easy it is to get into the smuggling racket, and because of its unusual outcome. Ludlam was sentenced to a total of two years in jail. His former partner, Christopher Millington, was given a suspended sentence and fined more than $1,000. A fine of $36,000 was levied on Michael Ludlam Associates Ltd. Neither Michael La Costa in London nor Hans Wirth in Switzerland has been charged with any offense.

The sentences came as a shock to observers, who took the view that the prison sentence in particular was harsh and at variance with penalties meted out in other cases in England and in other countries. Comparisons were made with the Nast case in West Germany, where the charges were more serious and the value of the diverted goods some 17 times greater.

Furthermore, the Nast case included a complete semiconductor litho shop, which has considerably more strategic significance than an individual computer system. Volker Nast had previously been indicted in two diversion cases in the United States, but had sought refuge back in West Germany, where he was safe from extradition.

Ludlam says he has few regrets, however. He describes the Bulgarians as "really smart guys. . . . I'm very happy to have done business with them because they're the most honorable people you could wish to meet on business terms. They shake hands on a deal and they pay you within seven days. And if there's a bit of the shipment missing, they still pay you the full money on the basis that they trust you to send it next time. I've no regrets about doing business with them, none at all."

Regardless of Michael Ludlam's assurances about how they are using his computers, it would appear that the Bulgarians have become the Eastern Bloc's main broker for the advanced VAX computer. A Helsinki businessman with ex-